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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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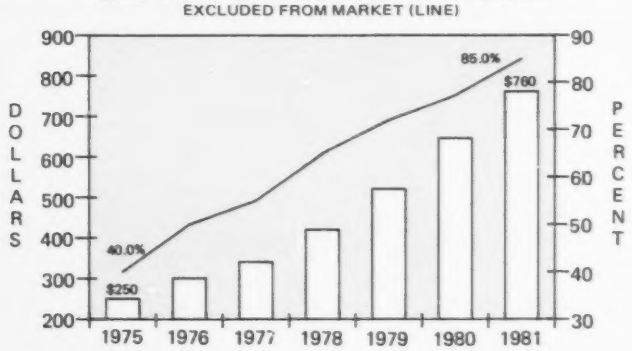
Whatever Happened . . .

Although some economists expected that the pace of economic activity would be expanding vigorously by early spring, these hopes have all but vanished. With housing and automobiles still flat on their backs, capital spending dampened by lofty interest rates and export prospects dimmed by soggy business conditions abroad, suggestions of imminent recovery have been replaced by comments to the contrary. Supporting this is the latest reading of the leading economic indicators, which declined in January by 0.6 per cent—their ninth consecutive monthly drop. Similarly, the index of coincident economic indicators—which moves in tandem with economic activity—fell in January by 1.6 per cent month-over-month, the steepest slide since the current recession began.

These indicators suggest that not only is the economy still contracting, but also that recovery is at best several months away. However, the momentum to escape the doldrums of past recessions, which has often been provided by stepped-up consumer spending for such big-ticket items as housing and automobiles, is unlikely to occur this time around. This is because of a formidable obstacle to a sustained turnaround in both the new home and new automobile markets: affordability.

MONTHLY PRINCIPAL AND INTEREST PAYMENT REQUIRED FOR NEW HOME PURCHASE (BAR) VS. % OF HOUSEHOLDS EXCLUDED FROM MARKET (LINE)



With mortgage interest rates hovering near the 17.50 per cent zone and the median sales price of new single-family homes sold standing at $68,600 in December, 1981, a sizable proportion of households remains priced out of the new home market. Assuming a down payment of approximately 25 per cent on the median-priced new home, principal and interest payments on a 25-year conventional mortgage contracted at 17.50 per cent would total about $760 per month, absorbing more than 40 per cent of gross median family income. Seven years ago, at the conclusion of the 1973-1975 recession, average mortgage interest rates stood just a shade above nine per cent and the median-priced new home at $38,800. As a result, principal and interest payments totaled only $250 per month, absorbing approximately 25 per cent of median household income—the usual upper limit beyond which a buyer no longer qualifies for a mortgage.

. . . To Signs . . .

Taking into account this rule of thumb that monthly mortgage payments should not exceed one-fourth of a household's monthly gross income, approximately 85 per cent of all households are now unable to afford the mortgage associated with the median-priced new home. This compares with the exclusion of only 40 per cent of all households from the new home market at the end of the 1973-75 recession (see chart).

What is more, when taxes and insurance are added to mortgage debt service, the proportion of those excluded from the new home market rises even further, especially in areas of lofty property taxes. This suggests that, as of now, only the most financially well-endowed can comfortably afford the purchase of a new home. Not surprisingly, new single-family homes were sold at a seasonally adjusted annual rate of only 353,000 units in January, a sizable 35 per cent below year-earlier levels and the second lowest level on record.

. . . That Recession Was Ending . . .

Since chances of new home construction prompting an economic rebound are just about nonexistent, what about automobiles? Here, too, prospects are dim for a robust turnaround anytime soon. As with mortgage payments, the combination of rising unit prices and interest rates has exacted a heavy toll on sales and output. But unlike mortgage payments, the

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escalation of monthly automobile payments has been primarily due to the steep rise in sales prices. For example, the average price of a new automobile sold in the United States in 1981 was close to $9,000. After a typical down payment of 25 per cent, principal and interest payments on a three-year auto loan contracted at 17.50 per cent (fourth quarter, 1981 average) totaled about $240 per month—absorbing slightly less than 15 per cent of gross median household income. In 1975, when the average sales price of an automobile was about $4,750 and the average auto loan rate 11.25 per cent, principal and interest, after a 25 per cent down payment, totaled about $115 per month on a three-year auto loan— absorbing 10 per cent of gross median household income.

Thus, in the past seven years, the typical monthly payment required to finance the average-priced new car has more than doubled, expanding at a rate almost twice as fast as the growth of median household income. But of the $125 increase in average monthly payments, by far the largest proportion of the gain is due to the upward spiral of prices. If the amount financed when purchasing a new car had remained at 1975 levels, the 6¼ percentage point escalation in the average interest rate since then would have added only $10 to the monthly payment. While this amount may be important to some buyers in today's recession-prone economy, it

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/24/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	136.554	– .129	+12.553
Loans to Depository Inst.	1.900	– .008	+ .187
Float	4.004	+ 1.565	– 1.268
Total Reserve Bank Credit	151.335	+ .289	+10.639
Treasury Deposits with Federal Reserve Banks	6.693	+ 2.125	+ 3.317
Currency Outside Banks	125.896	– .104	+ 6.073
Member Bank Reserves:			
Required	40.658	– .799	+ 1.456
Excess (Deficiency)	– .001	– .578	+ .164
Total Reserves Held	40.657	– 1.377	+ 1.620
Net Borrowed Reserves	1.755	+ .558	+ .037
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.410	+ .769	+ .433
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	444.8	+ 10.6‡	+ 6.7‡
M2 (January '82)	1,840.2	+ 11.4	+ 10.5
M3 (January '82)	2,203.7	+ 9.8	+ 11.1
L (November '81)	2,625.3	+ 10.3	+ 11.6

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/5/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.20%	12.40%	12.10%
* Federal Agencies	13.00	13.30	13.58
* Project Notes—Taxfree (46% Taxable Equivalent)	13.15	13.33	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.75	13.90	14.85

‡Finance Company Paper—Prime

5- 14 days	13.50%
15- 29 days	13.50
30- 59 days	13.63
60- 89 days	13.00
90-179 days	13.00
180-239 days	13.00
240-270 days	12.63

‡* Bankers' Acceptances

Apr.	13.55%
May	13.35
Jun.	13.15
Jul.	13.00
Aug.	12.95
Sep.	12.70

‡Industrial Paper—Prime

30- 89 days	13.63%
90-120 days	13.38

†Federal Funds Effective Rate 14.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th	Q'81	$ 2,995	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th	Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th	Q'81	– 4.7	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan	'82	3.6%	4.8%	9.6%
Change in Producer Prices*	Jan	'82	4.3%	3.6%	14.4%
Civilian Employment (Thousands of Persons) †	Feb	'82n	99,590	99,581	100,069
Unemployment as % of Civilian Labor Force †	Feb	'82n	8.8%	8.5%	7.4%
Personal Income*	Jan	'82	$ 2,495	$ 2,491	$ 2,301
Leading Indicators Composite Index (1967=100) †	Jan	'82n	127.0	127.8	135.2
Industrial Production Index (1967=100) †	Jan	'82	139.1	143.4	151.4
Net Change in Consumer Installment Credit †	Dec	'81	–$ 0.17	$ 0.34	$ 1.62
U.S. Merchandise Trade Balance †	Jan	'82n	–$ 4.09	–$ 0.86	–$ 3.71
Plant and Equipment Expenditures*	1st	Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Jan	'82	894	899	1,585
New Construction Expenditures*	Jan	'82n	$ 231.0	$ 234.4	$ 259.0
Total Business Inventories†	Dec	'81	$ 513.1	$ 515.2	$ 475.2
Total Business Sales †	Dec	'81	$ 343.3	$ 345.2	$ 343.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

should be noted that at current prices and cash payments, each one percentage point fluctuation in interest rates results in a change of only $3 to $4 in the monthly payment.

This suggests that even a sharp slide in interest rates may not trigger a revival in auto sales. Rather, potential buyers would be much more positively influenced in the short run by a decline in selling prices (or more rapid personal incomes growth). Indeed, with rebates in effect in February, domestic auto sales ran at a seasonally adjusted 6.3 million unit annual rate, more than 10 per cent above month-earlier levels, although still far short of the sales volume necessary for a return to health.

. . . And Recovery Was Nigh?

With housing and autos unlikely to lead the economy out of recession, the pace of business capital goods spending may well determine both the timing and strength of any economic rebound. Unfortunately, the severe erosion of corporate liquidity positions which has occurred in recent years raises doubts that a strong upturn in plant and equipment outlays can be sustained for long in the absence of a good-sized rise in borrowed funds. But with Federal government credit needs about to stage a massive leap upward, this development would only lead to a clash between public and private borrowings, push interest rates higher and, ultimately, choke off any capital goods-led recovery. HI

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/17/82)	130,893	– 3,342	+18,316
New York City (2/17/82)	32,835	– 1,724	+ 5,342
Commercial Paper (2/17/82)	169,426	+ 1,055	+39,053

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/17/82)	199,044	+ 1,004	+28,317
New York City (2/17/82)	55,735	– 178	+ 5,879

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/17/82)	471,149	+ 2,910	+45,280
New York City (2/17/82)	109,853	+ 870	+ 9,795

Financial Markets

	Friday 3/5/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.18%	– .67	– 2.85
180-Day Bills†	12.85	– 1.10	– 2.13
Longest Bills†	12.90	– 1.20	– 1.47
Recent Issues:			
15 1/8s 2/29/84	12.77	– 1.58	
14 1/8s 12/31/85	13.40	– .80	
14 5/8s 2/15/92	13.35	– .64	
14s 11/15/11	13.16	– .64	
Municipals:			
Bond Buyer–20 Bond Index* (3/4/82)	12.53%	– .17	+ 2.13
Blue List Total ($ Million)	$ 804	+ $ 2	+ $ 3
30-Day Visible Supply ($ Million)	$2,265	+ $475	+ $ 153
Total	$3,069	+ $477	+ $ 156
Corporates:			
Moody's Aa Composite (3/4/82)	15.21%	– .25	+ 1.02
30-Day Visible Supply ($ Million)	$10,232	+ $695	+ $6,680
Stocks:			
Dow-Jones Averages:			
Industrials	807.36	– 17.03	– 157.26
Transportation	322.82	– 13.56	– 80.91
Utilities	107.68	+ .45	– .43
65 Stocks	316.25	– 7.29	– 55.94
Standard and Poor's 500 Stocks	109.34	– 3.77	– 20.51
N.Y.S.E. Composite Index	63.14	– 2.19	– 11.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	65,860	+ 9,618	+ 19,200

* 46% Taxable equivalent 23.20%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/5/82	Week Ago
Overnight	14.38%	13.38%
1 month	14.38	14.50
3 month	14.38	14.88
6 month	14.44	15.00
1 year	14.44	15.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	14.80%
Long Term (7 to 15 yrs.)	14.70	14.90

FOREIGN EXCHANGE SPOT RATES New York Opening (3/5/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02304	43.41
Canada	.8237	1.2140
Denmark	.1262	7.9253
France	.1666	6.0025
Germany	.4259	2.3477
Italy	.0007894	1266.80
Japan	.004259	234.78
Mexico	.02210	45.25
Netherlands	.3887	2.5730
Switzerland	.5384	1.8575
U.K.	1.8390	.5438

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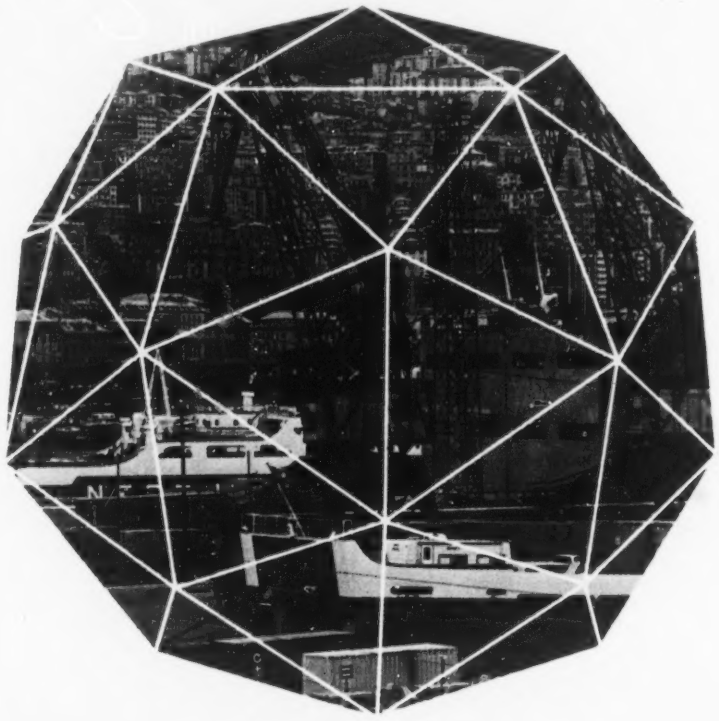

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